FDIC State Profile

SUMMER 2003

Alaska

The Alaska economy posted 2.4 percent employment growth, the third best rate in the nation, during the year ending January 2003.

- Employment growth in Alaska slowed modestly during the national recession in 2001 and accelerated in 2002 (see Chart 1). The substantial growth in employment is attributable, in part, to higher oil royalties and severance taxes, primary sources of state and local government revenue.
- Although Alaska reports a large budget deficit for fiscal year 2003, the state remains able to cover shortfalls via a Constitutional Budget Reserve account funded by settlements from disputed oil and gas royalties and taxes. However, the governor has proposed $55 million in additional budget cuts to forestall depletion of the $1.9 billion Reserve.
- Budget cuts may impact employment in the state's significant government sector (state and local), which represents 23 percent of total payroll jobs and which grew a rapid 4.4 percent during 2002.

State government revenues have varied significantly because of oil price volatility and a downward trend in oil production.

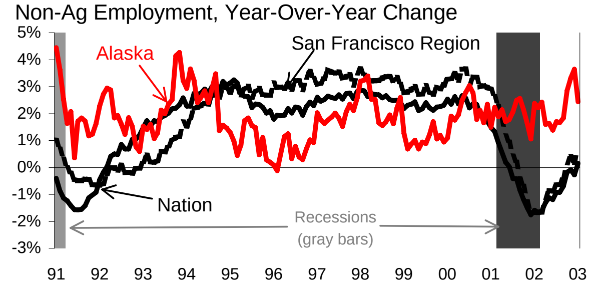
- During the past decade the annual average price of oil has been as low as $12.73 per barrel and as high as $28.14 (see Chart 2). Since 1990, oil production has fallen by almost half to under one million barrels per day.
- Oil-related revenues are expected to rise 30 percent during fiscal year 2003 (ending June 2003), reflecting the 30-percent rise in average oil prices.
- Political instability in the Middle East and Venezuela during 2002 and early 2003 contributed to rising oil prices, but that trend may be reversed if international tensions subside.

Lodging and state and local government have represented key employment growth sectors in Alaska during the past five years.

- Employment in the lodging and state and local government sectors has grown, even during the recent national recession (see Chart 3). Although declining in most other parts of the nation, the Alaska tourism sector expanded somewhat during 2002. For example, the number of inbound cruise ship visitors increased 14 percent during the 2002 summer season, compared with the previous year.

Chart 1: Employment in Alaska Continued to Increase During the Recent National Recession

Non-Ag Employment, Year-Over-Year Change

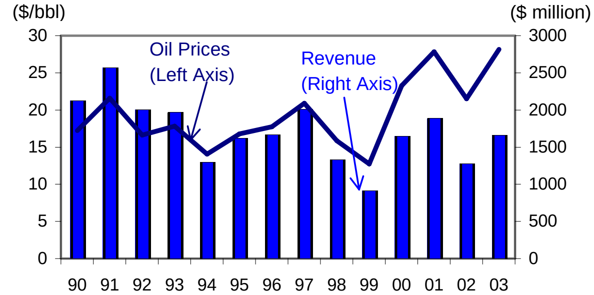


Note: End of 2001 recession projected to be February 2002; official date not yet determined

Source: Bureau of Labor Statistics

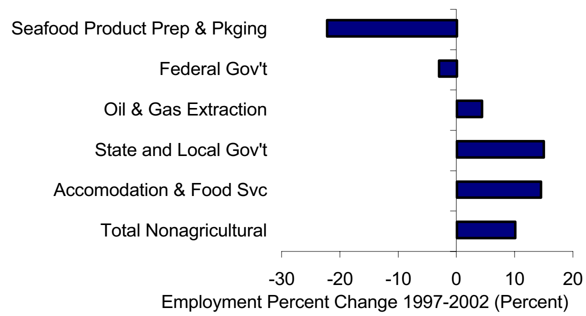
Chart 2: Alaska State Government Oil Revenues Vary With North Slope Oil Prices

Line: Alaska North Slope West Coast ($/bbl) Bar: Total Petroleum Revenue ($ million)



Source: AK Dept of Revenue, Revenue Sources; Forecast and Historical Data; Spring 2003

Chart 3: Job Growth in Key Sectors Varied Dramatically During the Past Five Years



Source: Bureau of Labor Statistics

- Employment in the seafood-packing industry declined from 1997 through 2002. Competition from other countries such as Chile and Norway and environmental restrictions reduced demand for and supply of fish products in the state.

Asset quality among insured institutions headquartered in Alaska deteriorated during 2002.

- Loan delinquency and net charge-off ratios increased among the state's insured institutions during 2002. The median past-due loan ratio rose from 1.27 to 1.84 percent during the period. The median net charge-off ratio increased from 0.14 to 0.30 percent.
- Delinquency increases occurred in multiple loan segments. Between fourth quarter 2001 and fourth quarter 2002, median residential real estate, consumer, commercial real estate, and commercial and industrial (C&I) loan delinquency ratios increased (see Chart 4).

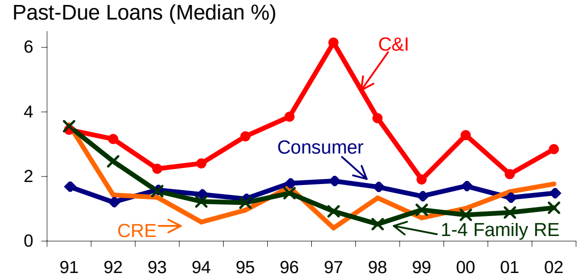
Higher credit costs hampered earnings performance among insured institutions based in Alaska.

- The median return-on-assets (ROA) ratio for Alaska's eight insured institutions declined from 1.25 to 1.20 percent during 2002, primarily due to increased provision expense. The median provision for loan losses to average asset ratio increased from 0.13 to 0.21 percent during 2002.
- NIMs compared favorably to national medians, primarily because of low interest expense levels relative to earning assets (see Chart 5).
- Strong NIMs offset high overhead costs. At year-end 2002, the median noninterest expense-to-average earning asset ratio was 4.15 percent, substantially above the 3.21 percent national median.

Rising interest rates could reduce potential revenue from unrealized securities gains.

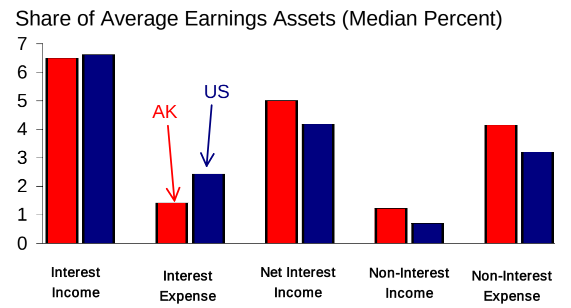
- Securities, as a percentage of the assets held by insured institutions based in Alaska, decreased from 36 to 28 percent during 2002, but higher than the national median of 21 percent. During the low interest-rate environment of 2001 and 2002, all of the state's insured institutions realized securities gains.
- Insured institutions headquartered in Alaska expanded loan volume slightly; the median loans to assets ratio increased from 49 to 52 percent.
- Unrealized securities gains also provide an important capital cushion. As of year-end 2002, the median net unrealized securities gains-to-equity capital ratio was 6.6 percent. In contrast, during the rising interest environment of late 1999 , the state reported median net unrealized securities losses (see Chart 6). Should interest rates increase, debt securities prices likely would fall, eroding the opportunities for selling securities at a gain.

Chart 4: Insured Institutions Based in Alaska Reported Higher Delinquency Ratios



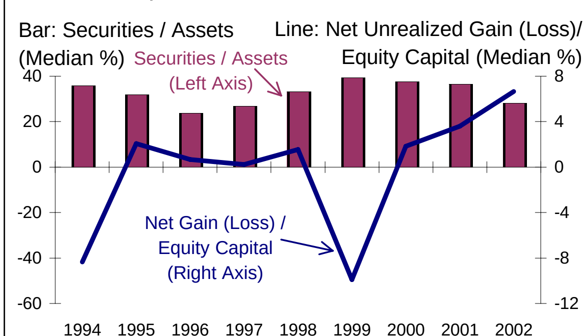
Notes: C&I = commercial and industrial. Commercial real estate (CRE) includes nonfarm-nonresidential, multifamily, and construction loans.
Source: Alaska Bank and Thrift Call Reports (December of each year)

Chart 5: Low Funding Costs Contributed to Relatively High Net Interest Margins in Alaska



Source: Bank and Thrift Call Reports (December 31, 2002)

Chart 6: Unrealized Securities Gains in Alaska Evaporated Last Time Interest Rates Rose



Source: Alaska Bank and Thrift Call Reports (December of each year)

Alaska at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	8	8	8	8	8
Total Assets (in thousands)	7,181,993	6,605,998	6,477,988	5,707,941	5,405,299
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	0	1

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	8.79	8.55	8.87	8.84	8.74

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.84%	1.27%	2.02%	1.28%	1.44%
Past-Due and Nonaccrual > = 5%	0	1	0	0	0
ALLL/Total Loans (median %)	1.32%	1.33%	1.28%	1.37%	1.34%
ALLL/Noncurrent Loans (median multiple)	1.48	2.19	1.69	4.37	2.50
Net Loan Losses/Loans (aggregate)	0.47%	0.24%	0.09%	0.11%	0.21%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	0	0	0	0	
Percent Unprofitable	0.00%	0.00%	0.00%	0.00%	0.00%
Return on Assets (median %)	1.20	1.25	1.10	1.15	1.30
25th Percentile	0.86	0.71	1.03	0.80	0.95
Net Interest Margin (median %)	5.01%	4.90%	4.60%	5.05%	5.15%
Yield on Earning Assets (median)	6.48%	7.77%	8.29%	8.05%	8.43%
Cost of Funding Earning Assets (median)	1.42%	2.70%	3.38%	3.03%	3.29%
Provisions to Avg. Assets (median)	0.21%	0.13%	0.06%	0.10%	0.08%
Noninterest Income to Avg. Assets (median)	1.05%	0.88%	0.79%	1.03%	1.04%
Overhead to Avg. Assets (median)	3.75%	3.83%	3.99%	4.21%	4.15%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	62.18%	62.79%	65.98%	66.73%	64.05%
Loans to Assets (median %)	51.78%	49.04%	49.02%	50.17%	49.29%
Brokered Deposits (# of Institutions)	1	0	1	2	2
Bro. Deps./Assets (median for above inst.)	1.07%	na	1.27%	0.78%	0.80%
Noncore Funding to Assets (median)	20.47%	18.51%	19.76%	17.94%	18.93%
Core Funding to Assets (median)	69.54%	69.71%	68.35%	70.68%	69.73%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	3	3	3	3	3
National	3	3	3	3	3
State Member	0	0	0	0	0
S&L	0	0	0	0	1
Savings Bank	1	1	1	1	0
Mutually Insured	1	1	1	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Anchorage AK	4	6,389,891	50.00%	88.97%
No MSA	4	792,102	50.00%	11.03%